

Pragati

The Indian National Interest Review

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Issue 1 - April 2007

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Community Edition

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Pragati

The Indian National Interest Review

Issue 1 - April 2007

Published by **The Indian National Interest** - an independent community of individuals committed to increasing public awareness and education on strategic affairs, economic policy and governance.

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The National Interest

In a land of over a billion minorities, the Indian republic—which owes its existence to the loftiest moral struggle in modern times—presents the best hope for the well-being and development of all its citizens. The survival, security and strengthening of the Indian nation and its institutions, therefore, is not only a matter of supreme moral consequence, but of immense human importance.

Frequently imperfect application, repeated attempts at its perversion and creeping cynicism about its effectiveness must not prevent us from recognising that the Constitution of India offers an enlightened way for us to organise our society and ensure the greatest welfare of all citizens. Surely this is something worth defending. We at The Indian National Interest community strongly believe so. Ergo, the publication that you are reading.

To rule over the hearts, minds and affairs of the Indian people, their rulers and their adversaries alike have historically employed the device of 'divide and rule' and exploited the immense diversity in religion, language, ethnicity and economic background to their own advantage. To our collective loss, we observe that it is happening to this day. We believe that the national interest lies in defeating the divide and rule paradigm: by upholding the rights and freedoms of the individual and by dismantling the barriers which stand in the way of equality of opportunity.

This first issue of *Pragati* expresses several of the themes that we care about dearly: economic freedom, realism in international relations, open society, a culture of tolerance and an emphasis on good governance. The environment, poverty eradication and rural development have long been appropriated by vested ideological and political interests, over which they have come to assert an exclusivity of sorts. We challenge these claims of intellectual monopoly: *Pragati* will deal with these issues with the seriousness they demand.

This publication is the product of independent minds, who are—transcending ideological pigeonholes—united in our determination to see a better future for our nation.

India-Iran-Pakistan pipeline

Energy security begins at home

Markets can keep the lights on, provided the Indian government invests in energy infrastructure

NITIN PAI

Before Mani Shankar Aiyar became petroleum minister in the UPA government, discussions on energy security generally took place within the rarefied circles of high officialdom and think-tanks. Mr Aiyar declared energy security as a major national priority, gave the media a new buzz word and engaged himself in vigorous energy diplomacy. He deserves credit for focussing attention on a vital issue. But he also revived the idea of the Iran-Pakistan-India (IPI) gas pipeline—an idea that quickly crossed over into the realm of the India-Pakistan 'peace process' and became a symbol of contrived 'mutual dependencies'.

The government, in Mr Aiyar's book, is the grand solver of national problem—and the pipeline project exemplified his belief. Thus the combined petroleum and foreign affairs bureaucracies of three countries found themselves meeting regularly in an attempt to breathe life into the IPI project. Until, that is to say, the little secret about Iran's nuclear weapons programme leaked and the United States found a political reason to register its opposition the project.

The route of the proposed pipeline traverses the entire breadth of Pakistan, much of it through areas where the Pakistani state has only nominal control. Even before Balochistan exploded into a full-fledged rebellion against Islamabad, taking potshots at gas pipelines was a sort of coming of age ritual for Baloch tribesmen. The Musharraf regime, of course, assured India and Iran that the Pakistani army was quite capable of protecting the pipeline not least because it could extract rent in the form of US\$500 million in transit charges.

It is not hard to see why the Pakistanis are excited about the project: not only do they get access to Iranian gas, they also get paid by the Indian government to hold on to India's economic jugular. Mutual dependencies create peace to the extent that they constrain India's ability to retaliate. It would be prudent to remember that Gen Musharraf was emboldened to initiate the Kargil war after sensing that Pakistan's declared nuclear capability created greater room for sub-conventional warfare.

In July 2005, Prime Minister Manmohan Singh conceded that the project might be commercially unviable if all risks were priced in. But project risk is nothing compared to the risk to India's national security: it remains a mystery why the Indian government should voluntarily hand over an important bargaining chip to a country and a regime whose commitment to peace is at best uncertain and at worst a public relations exercise.

Those in the foreign policy establishment who would have otherwise opposed the project might have remained si-

Creating the infrastructure that links India to the global energy market will allow Indian firms to purchase fuel from multiple vendors and through multiple shipping lines. No single supplier or government will be able to squeeze India commercially.

lent due to their distrust of American intentions: the Bush administration has been a vocal critic of India's engagement of Iran, and the US Congress has gone to the extent of adding riders to the India-US nuclear deal.

Yet, take away the notions that the gas must be Iranian and that it must flow through a pipeline across Pakistan and there is a better solution to the energy security problem. That solution—entirely within India's grasp—relies not on the diplomatic negotiation skills of government officials, but on the power of markets.

Consider a state-of-the-art port with integrated oil & gas processing terminals along India's west coast, which is then connected to major cities with domestic pipelines and efficient highways. Such a project will allow India to import oil & gas not only from Iran, but also from any other exporting country. The technology to carry oil & compressed gas on ships is mature, and if Indian ports are able to efficiently handle the seaborne traffic, this project will provide all the capabilities of the IPI pipeline, and a whole lot more.

The IPI pipeline restricts India to a monopoly supplier and a monopoly transit provider. This is not a very good scenario for any purchaser. The Europeans are finding this out

the hard way ever since President Vladimir Putin began using energy supplies as a coercive tool.

Creating the infrastructure that links India to the global energy market, on the other hand, will allow Indian firms to purchase fuel from multiple vendors and through multiple shipping lines. No single supplier or government will be able to squeeze India commercially. Governments will find it much harder to coerce India by threatening to cut off energy supplies. The Indian navy can be relied upon to take care of those who try rougher methods of coercion.

Almost all the public investment will be domestic: not only creating a source of thousands of jobs but also the conditions for a future economic growth. This is far more sensible use of India's fiscal resources than, effectively, paying protection money to the Pakistani army.

Moreover, a recent pathbreaking study by Roger Stern, an American analyst, shows that Iran may not be in a position to deliver all the gas that it has sold. This, rather than India's vote at the International Atomic Energy Agency (IAEA) to refer Iran's nuclear activities to the United Nations Security Council, may be the underlying reason why the Iranians want to renegotiate deal with India. In any case, choosing to purchase Iranian gas in the form of LNG and transporting it on ships will not hurt India's relations with Iran.

So Mr Aiyar was right. Secure, reliable and efficient energy supplies are necessary in order to sustain India's future growth. The way to get started on this does not require the consent of Iranian ayatollahs, Pakistani generals or American officials. It just requires the Indian government to get the necessary domestic infrastructure in place and let markets do the rest.

Budget 2007

Outlays Only, Not Outcomes?

Another lost opportunity to clear the decks for a rising India

MUKUL G ASHER

India's 2007-08 budget, with total expenditure of Rs. 6805 billion (US\$ 151.2 billion and equivalent to 17 percent of GDP) was presented on February 28, 2007. It was unveiled against the background of robust growth; savings (32 percent) and investments (34 percent) to GDP ratios at healthy levels; impressive private sector performance; and a relatively benign external environment. The concern over high inflation, and the relative stagnation in agriculture and rural development have, however, been much on the mind of policymakers and the public. Sharp declines in stock markets worldwide soon after the budget was presented have added to the concerns.

The budget reports progress in fiscal consolidation, with primary budget surplus of Rs. 8047 crore next year - the first in several years. Revenue buoyancy has been the main contributor. Also, the proposal to establish an independent Debt Management Office (DMO), separating debt management from monetary policy, is a positive step.

The budget promises progress towards low rate-broad based Goods and Services Tax (GST). However, the inclination to selectively vary excise and other taxes (e.g. on cement) is not consistent with this goal. The direct tax code promised later this year will be judged on the basis of whether it simplifies the tax code through base-broadening and lowering of nominal rates, accelerating shift towards modern tax administration practices, increasing transparency and lowering com-

pliance costs.

The reduction in customs duties continues the policy of unilateral liberalization. The proposal to experiment with a reverse mortgage product by the National Housing Bank (NHB) should also be welcomed. The budget however does not meet the expectations that it will be transformative with respect to current governmental philosophy, structures, and procedures.

First, there has been no follow-up on the Finance Minister's statement in the 2006-07 budget that "outlays do not necessarily mean outcomes" and that "people of the country are concerned with outcomes". Instead he enumerated a series of outlays on current schemes which by general consensus have not been generating commensurate outcomes because of poor design (for example, fertilizer subsidies) and poor governance for example, the National Rural Employment Guarantee Scheme (NREGS) and Sarva Shiksha Abhiyan (SSA).

Second, there is consensus that supply-side constraints in physical and social infrastructure (such as health, education, and housing) should be addressed energetically and skillfully to enable India to attain the 11th Five Year Plan (2007-08 to 2011-12) vision of "faster and more inclusive growth".

It is time that policymakers realize that only defensible definition of inclusive growth is that government policies create an environment in which more and wider opportunities for sustainable livelihoods (not just jobs) are created; and those in need are provided well designed, and properly delivered assistance on the basis that they are Indian citizens, and not on the basis of any other criteria.

Perhaps it is too much to expect such a definition of inclusion from a coalition government whose partners have over the years pandered to using political power to artificially create divisions among various groups in the country. This has contributed in no small measure to good economics and good governance not being seen as good politics. But it is time to assert primacy of national interest over narrow sectional political interests.

It is time that policymakers realize that only defensible definition of inclusive growth is that government policies create an environment in which more and wider opportunities for sustainable livelihoods are created; and those in need are provided well designed, and properly delivered assistance on the basis that they are Indian citizens, and not on the basis of any other criteria.

The budget continues the practice of increasing reliance on earmarked taxes. The main deficiency of such taxes is that over time while the priorities may change, they create strong distributional coalitions for their continuance. This outweighs the short-term advantage of making such taxes seemingly more acceptable.

The proposed additional cess of 1 percent on all taxes to finance secondary education serves as an example. The reason advanced for this cess is that as primary education becomes universal for recent cohorts, demand for secondary education will increase substantially. The expenditure from this cess must facilitate greater access to secondary education on a non-discriminatory basis, while assisting the needy.

The extent to which the cess will lead to increased quality and quantity of secondary education will depend on whether the supply side, such as classrooms, science and

computer labs, competent teachers, etc. is planned concurrently. The budget proposals do not appear to sufficiently recognize the importance of the supply side, not just in secondary education but also in other areas of education, health care, and housing.

Proper budgeting is needed to allocate some of the cess revenue to augment the supply and to assess outcomes. The extension of NREGS from current 200 to 330 districts, without such budgeting reflects a mindset which must be changed if the slogan of *aam aadmi* is to be credible.

Third, the budget does not sufficiently recognize the need for re-balancing the role of the state and the market, and of the public and the private sectors for managing increasingly complex economic and strategic challenges facing India

both domestically and internationally. Instead of recognizing these greater complexities and nuances, it takes a simplistic view of these roles, giving primacy to monetary outlays over other aspects of the role of the state.

The budget suggests that a small portion of foreign exchange reserves may be used for infrastructure development. Exactly how has not been specified, but the use of government guarantees on these funds has been

proposed. This has serious implications for it increases contingent liabilities. While the issue of investing large foreign exchange reserves in a more productive manner is being faced by many countries, in India's case, the internal non-financial constraints (such as land acquisition, regulatory and risk-sharing arrangements, and inter-governmental coordination) are critical in addressing infrastructure constraints. These also apply to increasing physical infrastructure in areas such as educational institutions and health care facilities. Without addressing these constraints—and the budget does not give due weight to this aspect—increased financial yield will not yield commensurate outcomes.

The budget does preserve the past gains, but does not sufficiently emphasize outcome-oriented public policies and management essential for rising India.



Fundamental rights and freedoms

Why did it take 34 years ?

And do Indians really care about freedom?

SHASHI SHEKHAR

In a significant ruling in January 2007, the Supreme Court has held that the laws included in the Ninth Schedule of the Constitution after April 24, 1973 are open to judicial review. Reacting to today's judgement, Law Minister H R Bhardwaj argued that "the judgement would have no adverse impact on the functioning of the executive". One would have to take the Law Minister's assertions with a pinch of salt, for if anything, the Ninth Schedule had become the executive's chosen instrument to subvert constitutional provisions in order to create and nurture political constituencies even at the cost of dividing society. A brief history of the Ninth Schedule shows how it was abused over the years at the expense of our freedom and our fundamental rights.

First some level setting. For years we had been

told that the basic structure of the constitution cannot be amended. We had also been told that the fundamental rights were what they were meant to be—fundamental, and therefore inviolable. But what happens when the fundamental rights get in the way of the political agenda of the government of the day? You pass the first amendment to the world's lengthiest written constitution. Remember the purpose of the constitution is to lay out general and fundamental principles, articles of faith, values that we collectively share and believe in and which are meant to form the basis for law making. So when you have the lengthiest written constitution it is indica-

That for 34 years there was not a murmur of protest or legal challenge tells us that there is effectively no right-of-center movement in the country.

tion that somewhere in the process of laying out general principles we went about making a number of special provisions and exceptions to accommodate special interests. So what then was the motivation to amend a constitution which was already diluted in its design with ifs and buts?

The answer to this question becomes clear with a reading of the first amendment. It was brought about by Pandit Jawaharlal Nehru on 10th May 1951 to address judicial decisions and pronouncements specially in regard to the chapter on fundamental rights. Nehru was also very clear on the purpose behind the first amendment. The state wanted take away land from the *zamindars*, re-distribute it and make special provisions for the socially and economically backward. Despite having architected the constitution, the lengthiest one at that, Nehru was not confident that the laws made to pursue these goals would stand up to judicial scrutiny on account of being discriminatory. Hence the first amendment.

It was the first amendment that brought in Articles 31A and 31B conferring upon the state the right to make laws to acquire private property, deem them as not being discriminatory and to further protect all such laws from judicial review by creating something called the Ninth Schedule. It is interesting to note that the origins of the Ninth Schedule lie in land acquisition by the state, given the current political debate on SEZs, Singur and Nandigram.

Since the First Amendment, the Ninth Schedule has provided the cover for governments to amend the constitution multiple times. The fourth amendment inserted six acts to the Ninth Schedule. The 17th added 44 more acts. The 29th brought in 2 acts from Kerala. The 34th added 20 more land tenure and land reforms laws enacted by the states. In 1975 Indira Gandhi's infamous abuse of executive power leading upto emergency saw the 39th amendment adding certain central enactments. In 1976 the 40th amendment added even more to the Ninth Schedule. The 47th amendment in 1984 and the 66th in 1990 gave more protection to land ceiling acts. This brings us to the present dispute.

The 76th amendment to accommodate Tamil Nadu Government's legislation to provide for university seat reservations to the level of 69 percent for SC/ST and OBCs. What takes the cake however is the 78th amendment, which was about not just immunity to laws in Ninth Schedule, which was already suspect, but amendments to those laws making

those amendments immune. Since then we have had absurd laws from supporting sugarcane prices to the New Delhi Urban Zoning Laws, all clamoring for an exalted spot in the much abused Ninth Schedule.

So what did the Supreme Court rule on January 11th? It said that laws placed under Ninth Schedule after April 24, 1973 shall be open to challenge in court if they violated fundamental rights guaranteed under Article 14, 19, 20 and 21 of the Constitution. Why 1973? Foremost is the landmark verdict in the Keshavanand Bharati case when the Supreme Court for the first time defined the concept of the basic structure of the Constitution. Also, if you look at the acts prior to 1973 in the Ninth Schedule they were primarily agrarian reforms. Most of the executive abuse started with Indira Gandhi's actions prior to Emergency and subsequent vote bank politics that saw absurd laws making their way into the Ninth Schedule while violating rights and freedoms.

The Ninth Schedule saga also highlights an important aspect of political scenario in India. That for 34 years there was not a murmur of protest or legal challenge tells us that there is effectively no right-of-center movement in the country. Yes, there are some who claim to be for reforms and markets but these are individuals who see capitalism as an end in itself while missing the underlying fundamental principle of individual freedom. It is this same mindset that endorses the state's pursuit of industrialization through SEZs on the basis of a professed faith in capitalism while looking the other way as the state violates fundamental rights and individual freedom to acquire private property. This underlying intellectual contradiction sums up why there is no constituency for economic reforms in the country: because there is no fundamental belief in the primacy of individual freedom.

By willingly ceding our freedoms to the State, we the people have allowed for the Ninth Schedule to thrive for decades. The schedule has allowed for a perverse political culture to appeal to specific social groups and parochial interests. It has instilled a deep sense of entitlement in the politician to be entitled to legislate just about anything to suit political interests, the constitution be damned. The Supreme Court's verdict comes as a welcome judicial antidote to the dubious politics of the rhetoric of social justice.

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OLPCs won't solve India's problem

Expensive technology cannot replace structural reform of the education sector

ATANU DEY

The One Laptop Per Child (OLPC) project has powerful interests on both sides of the debate. It is easy to guess who is on which side. Bill Gates, for instance, is predictably against the OLPC as it does not use Microsoft software. The OLPC does not use Intel chips. That could explain why Craig Barrett, Intel's chairman, would be a critic. Mind you, merely because they are not disinterested observers, it does not follow that they are wrong in their criticism of the Nicholas Negroponte's project.

I have a great deal of respect for Mr Gates and Mr Barrett and I am happy to find myself in their company in my opposition to the OLPC. My point of view differs from them however. Does the OLPC make sense in the Indian context? I don't think so. Here's why briefly:

I think the OLPC is a great idea and will benefit a lot of people. Unfortunately, that lot does not include students in poor underdeveloped economies such as India. The OLPC is irrelevant in the context of Indian education. It is a technological solution while the problem in India is largely non-technological. So it does not make sense to me to recommend an unaffordable technological fix to a non-technical problem. Some very clever people have misunderstood the nature of the problem. It is as if someone recommends casting spells to fix a bro-



ken car. Psychological methods cannot address mechanical problems.

Here's how I see the problem of education in India. India's primary education is in trouble, which spells trouble higher up the chain. Around ninety-four percent drop out by the twelfth standard. Only six percent go to college, and of those who graduate college, only about a quarter are employable.

Why is the Indian education system in the pits? Primarily for the same reasons that the Indian economy is: government control, indeed governmental stranglehold, of the economy. It is instructive to see that whenever, for whatever reasons, the government has let go of the stranglehold - or was not involved in to start off with - that sector has flourished, and how!

For example, consider telecommunications. In five decades of governmental monopoly the telecommunications

sector had a base of twenty million users; now absent the monopolistic stranglehold of the government on the telecommunications sector, we add twenty million users in three months.

Let me repeat that: three months as opposed to fifty years. Sure, technical progress (cellular technology) is a factor. But it is not the major factor.

It is easy to demonstrate why government intervention in the Indian economy explains why the Indian economy performs miserably. Let's for the moment consider that as read. This fact is relevant in understanding why OLPC does not make sense in the Indian context.

Indian education suffers from government intervention and lack of resources. Resource constraints are both financial and human capital. Furthermore, the limited financial resources are leaked away through bureaucratic and

political corruption and ineptitude. The major barriers in education are not technological and therefore a technological solution is not going to alter the situation. Indeed, the OLPC would make the situation worse in the Indian context.

Electronics is neither necessary nor sufficient for education. Merely providing laptops is not going to solve the problem. I have argued before that the much lamented "digital divide" is at best a misguided notion and at worst a device used by self-serving money grubbing powerful vested interests to milk the poor for all they are worth.

In the Indian context, the OLPC could in fact widen the "digital divide" and make the system far worse than it is today. The solution to India's educational problems will and must use technology intensively, but it will have little to do with children toting laptops around.

Okay, the problem with OLPC in India:

1. India cannot afford two hundred million laptops at an upfront cost of US\$40 billion. Merely buying a million laptops for \$200 million will be a problem, as you would have to figure out which one out of every two hundred students will be the lucky one to have a laptop.

2. One million laptops has an opportunity cost. That is, the money could be spent on other things. \$200 million could be used to provide one million students with one full year of education plus boarding and lodging in rural India. This money could be spent locally and provide jobs and have the usual economic multiplier effect.

3. Even if we had the \$40 billion to spend on OLPC, we would not have solved the real problem of why India has half the illiterates in the world. Government involvement is the problem. And OLPC actually would increase government involvement.

Prediction:

1. The countries that can afford to buy laptops in numbers comparable to their student population will not face the problems of equity and distribution.

There aren't many developing countries like that.

2. OLPC is a costly device for poor countries. It's going to be a huge waste of money that could be more efficiently spent on other technological solutions such as radio, TV monitors, and DVD players.

Environment

Western alarm

On the doomsday predictions and a poised India

SHASHI SHEKHAR



Stephen Hawking and other prominent scientists have warned that the world is closer to apocalypse because of climate change and nuclear proliferation. As a result, the Bulletin of Atomic Scientists has moved the minute hand on its famous "Doomsday Clock" two minutes closer to midnight. The concept timepiece now stands at five minutes to the hour. The clock was first featured by the magazine 60 years ago shortly after the United States dropped its atomic bombs on Japan in 1945. The decision to move it five-to-midnight came after the Bulletin's directors and affiliated scientists held discussions to reassess the idea of doomsday and what posed the most grievous threats to civilisation. Growing global nuclear instability has led humanity to the brink of a "Second Nuclear Age," the group concluded, and the threat posed by climate change is second only to that posed by nuclear weapons.

Some scientists - even climate scientists - may not support the comparison of global warming to the catastrophe

that would follow a nuclear engagement. But the Bulletin argues that both the nuclear menace and a runaway greenhouse effect are the results of technology whose control has slipped from humans' grasp. How seriously must one take the Doomsday Clock? It has moved backward and forward 18 times in the last 60 years reflecting the potential for nuclear annihilation. It advanced to two minutes before midnight - its closest proximity to doom - in 1953 after the United States and the Soviet Union detonated hydrogen bombs. Its keepers last moved the clock's hand in 2002 after the United States withdrew from the Anti-Ballistic Missile Treaty and amid alarm about the acquisition of nuclear weapons and materials by terrorists.

While we in India have had our share of doom and gloom the mood of the nation has been refreshingly optimistic. The Indian Shining campaign of the BJP drew a lot of populist flak but the optimism of an India Rising is hard to miss.

Interestingly enough neither Pokhran II nor the escalation of tensions following the December 13th terrorist attack on Parliament were significant events to the Doomsday Clock. So what does one make of the doom and gloom cynicism emerging from the West and the poised optimism emerging from the East, led by India and China.

To understand these contrasting perceptions of the future it is useful to delve deeper into the underlying social and political dynamics and understand why the West selectively trumps up or plays down global threats.

Western society and politics is at a cross-roads. This was very much in evidence in Europe when overwhelmingly protectionist forces voted against the proposed EU constitution. More recently in France, fierce resistance to changes in labour laws forced the government to roll back its position. Thomas Friedman summarized Western Europe very nicely when he said that he saw Europe as 'an assisted-living facility staffed by Turkish nurses'. A civilisational senility slowly setting into Western Europe is creating paranoia. This paranoia operates at a couple of levels.

At its most base and irrational level you fear anything that is a remote threat and hence all this talk of the "Second Nuclear Age". Don't be surprised if the India-US nuclear deal is mentioned in the same breath. At a higher level the paranoia takes a more xenophobic hue motivated largely by the changing demographic and economic dependence on the East. It is this paranoia that is making a big deal of climate change while doing practically very little by way eco-friendly lifestyles or consumption patterns. The West would like the East to foot the bill, at least in terms of bearing opportunity costs, on climate change as calculated by the Stern Report. So while the assisted living facility continues to run on centralised climate control they would like to see the Turkish nurse pay a higher tax on her gas bill.

But doomsday or not, there is no excuse for eco-unfriendly economic development in India. However India must not let itself be cowed down by doomsday threats from the West to sign up for any unfair sharing of climate change costs. India could seize the opportunity and show the West how even eco-friendly economic growth could be balanced by responsible consumption for a more sustainable living. Not because doomsday is nearing but because of who we are, because of what we have stood for historically, and because of what we believe in.

Pakistan policy

The farce is joint but the joke is on India

And you thought that the India-Pakistan Joint Anti-terrorism Mechanism will help prevent terrorism in India?

NITIN PAI

Pakistan, according to a news headline, is disappointed after terror talks with India. That's because Indian officials reported little new on last month's terrorist attack on the Attari express that more than 60 Pakistani passengers. The very fact that an India-Pakistan 'joint institutional mechanism' on terrorism

.pOINT_bLANK

- Vikram Nandwani

You know, I think there is a spark of hope between us

0609J © Vikram Nandwani



can generate such a headline in the international media points to how big a self-goal (or hit-wicket, in keeping with the language of the season) Prime Minister Manmohan Singh scored at Havana last year. He pulled Pakistan further out of the international doghouse by claiming that it too, like India, was a victim of terror. Pakistan is now returning favour by attempting to push India into the doghouse.

First, they accused Indian intelligence agencies of being "involved in sponsoring, training, funding and financing terrorist networks in Pakistan, especially in Balochistan, to carry out subversive activities through Afghanistan".

Next, they denied that a Pakistani could have carried out the bombings on Mumbai's local trains because it was carried out by remote control.

Finally, on being presented with the sketch of a Pakistani suspected of involvement in Attari express carnage, they questioned "why a Pakistani would kill his countrymen".

Small wonder then that the Pakistani foreign ministry official should be pleased with the results of the joint institutional mechanism. If this is what transpired, then it really did go well for the Pakistani side.

The entire farce confirms the suspicion that the joint mechanism is really about playing to the galleries, conveying a sense of progress where there is none. It only serves to keep Gen Musharraf in power. It may be another forum for India to take its charges to, the effectiveness of which is highly questionable. But it's a wonderful one for Pakistan to issue its denials from.

China

The Implications Of China's Burgeoning Military Spending

The Chinese have plans

K S MADHU SHANKAR

In March, China officially announced that it will increase its defence spending by 17.5% to about \$45 billion this year. Many security analysts across the world estimate that actual spending is at least 2 to 3 times higher than what China officially announces, suggesting that real spending might be in the range of \$100 billion. That makes China the third largest defence spender in the world this year after the United States and Russia (or Japan). While its budget is still about a fifth of America's, China

intends to spend six times more on defence compared to India.

So what are China's short-term and long-term goals accounting for this increase? The short-term plan is to increase the salaries of the People's Liberation Army (PLA) personnel by up to 20% and check the signs of discontent that are said to be brewing within the PLA ranks arising from wages not keeping pace with increase in the cost of living arising from China's rapidly expanding economy.

The long-term plan is to ensure that there is a firm foundation by 2010 for the planned second level of modernization to begin. By 2020 China plans to transform its forces from largely manpower based armies designed for the battlefields of the 20th century to smaller but highly technological forces capable of engaging hi-tech adversaries in short duration, high intensity conflicts.

To that end China is investing in major programs, building advanced nuclear attack and ballistic missile submarines, aircraft carriers and improving the range and accuracy of its missile arsenal. It also recently unveiled a new indigenously built multi-role fighter aircraft and in January conducted an anti-satellite missile test.

There is a wide-spread impression, and one that works to China's advantage, that the rapid buildup of the Chinese forces is aimed at making sure that Taiwan does not declare independence. While this is largely true it will be a fallacy to assume that the dragon's fire is reserved for one direction.

A year and half ago, reports emerged of an unprecedented Chinese military buildup in the Tibetan plateau against India. The Qinghai-Tibet railway is complete upto Lhasa and is now being expanded to the Nepalese border coming very close to India's strategically vulnerable 'chicken's neck' area the Sikkim-Nepal-Bangladesh-Bhutan junction.

On to the West, China has built a fully metallic highway capable of carrying battle tanks, armoured personnel carriers and other heavy equipment linking Lhasa to Urumqi and Kashgar at

its frontier with Central Asia. It has also set up a listening post in Aksai Chin. According to some analysts, the Indian response of simply upgrading the Daulatbeg Oldi outpost in Ladakh with advanced communication equipment will not improve the military balance in this sector because the PLA is capable of deploying up to two divisions on the Ladakh front at short notice taking advantage of the Lhasa-Kashgar highway.

To bolster its air power projection capacity, China has built two new helipads that can support four helicopter squadrons and is building two new airstrips for its air force. It has deployed twenty MRBMs and 60 short-range missiles aimed at Indian cities like Srinagar, New Delhi, Chandigarh, Shimla in addition to military installations in the area.

It's maritime 'string of pearls' strategy is already well known. According to Navy chief Admiral Sureesh Mehta "China we believe is shaping the maritime battle field in the region. It is making friends at the right places. If you don't have the capability to operate in those waters, for a length of time, then you need friends who will support your cause, when the time comes, so definitely China is doing that, as there are Pakistan, Bangladesh, Myanmar, Sri Lanka and down below Africa. So it is a known fact that we are ringed by states, which may have a favourable disposition towards China. They are looking 20 years ahead."

To match China's determined effort to swing the regional military balance in its favour, India must accelerate the modernisation of its own armed forces. Unfortunately, this process is hampered on the one hand by tepid budgetary allocations and on the other by a pernicious culture of politicisation of defence procurement deals. The time has come for India to evolve a non-partisan, professional approach to defence planning and procurement.

Governance

Corporate Political Responsibility

Yes, the IT industry has to do more for India. But not what Prof Sen says it should

NITIN PAI

Amartya Sen made a JFK-esque speech asking the IT industry what it had done for India. His point was not that the IT industry isn't doing anything for the economy at large—he concedes that it is—but that it should do 'much more'. Indeed, Sen argues, given that it has benefited from the country's contributions to its development, the industry should have a 'sense of obligation' to do much more.

Prof Sen has a point. But it's not the one he intended to make. The IT industry's primary obligation is to its shareholders and customers. It will be doing its bit for the country as long as it does this with efficiency and excellence. This 'sense of obligation' may not even apply to state-owned enterprises and public sector undertakings who can best serve the country by sticking to their charter than by attempting to champion various good causes.

Of course, corporations, like citizens may want to do good for the society they are a part of. But they have no moral or legal obligation to do so. In a country where a communal socialist government is not only unwilling to do the needful to unshackle restrictive labour laws that hurt both employers and employees but is also attempting to impose community-based quotas on private companies, the use of the word obligation must be treated with extraordinary care.

What is true is that Indian industry in general has chronically under-invested in improving the quality of governance. Industry associations like FICCI, CII, ASSOCHAM and NASSCOM have seen themselves solely as a voice of their members. In India's political economy they are an 'interested party' on various issues.

Comments?

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Furthermore, their ability to shape government policy has been limited to the extent their most influential individual members have been able to create and exploit specific loopholes that only benefit a small number of companies.

Thanks in part to the license-permit raj and its legacy, large corporate houses have found it more worthwhile to invest in 'fixers' who could work on the concerned ministry rather than in broader initiatives that benefit the industry as a whole. Contrary to what Prof Sen argues, NASSCOM has perhaps been more inclined to pursue a progressive industry-wide agenda than its 'old economy' counterparts. Meanwhile private commercial ventures, like those that Rajesh Jain, Atanu Dey and Drishtee are working on, for instance, seek to both address a social need and turn a profit at the same time.

But where are the think-tanks, the public policy schools, the social science research endowments and sponsored professorships? To its credit, corporate India has foundations working on setting up village schools or improving rural infrastructure. While these are commendable, they are no substitutes for the industry applying sustained pressure on government to do its job well. Running village schools and improving rural infrastructure, after all, is the government's job. The IT industry has to find its political feet. Not because it has an obligation. But because it is necessary for its own growth and development. The externalities from doing so can far more profoundly benefit the nation than from any 'obligations'.

Factoid:

In February, NASSCOM released the results of the first ever comprehensive study on the multipliers associated with the IT industry in India. The research was conducted by CRISIL and the main highlights are:

For one job created in IT-ITES, four jobs are created in rest of the economy

In 2005-06, maximum additional employment generated through consumption spending (2.49 million) followed by operating expenses (2.1 million) and capital expenditure (0.63 million)

A rupee spent on operations generated additional output of 90 paise (Multiplier 1.9x). A rupee spent on capital goods generated an

additional rupee (Multiplier 2x)

A rupee spent by IT-ITES professionals generates additional output of Rs 1.10 (Multiplier 2.1x)

In terms of potential impact on the economy by 2010, total economic output could be as high as \$120 billion, while jobs created (direct and indirect) could cross 115 million (Reuben Abraham/The Indian Economy Blog)

States

Message from Punjab

The pundits are lazy - voters want reform

ROHIT PRADHAN

A constant refrain we hear from any post-election analysis is that economic reforms are politically unviable. We are further told that the *aam aadmi* is extremely clever and democracy allows him to remove those who don't reflect his concerns. Hence, it should not be of any surprise that following the defeat of the Congress party in the recently held state assembly elections in Punjab and Uttarkhand, its leaders are inclined to blame economic reforms and have begun clamouring for a return to 70s-style *garibi-hatao* politics. But is it really true that good economics does not pay electoral dividends? Before attempting to answer that question, a little bit of history will aid our understanding.

The NDA fought the 2004 elections on an 'India Shining' campaign. It was widely expected to win but the eventual results surprised everyone, including the winners. After the usual political gymnastics, the Congress was able to cobble together a majority and form the government. Quite obviously, our political pundits - who were as shocked as the BJP by the election results - attempted to explain the defeat by blaming the India Shining campaign and its inspiration - economic reforms. All of a sudden, no one wanted to talk about the reforms anymore and 'inclusive growth' and 'reforms with social face' became the new buzzwords. There was little attempt to examine the real cause of NDA's defeat.

There is nothing our politicians love more than oversimplification for it saves them the trouble of having to deal

with complex issues. 'Reforms are bad' became conventional political wisdom and the easiest way to explain election results when reformers like Chandra-babu Naidu lost. But when decidedly anti-development leaders like Laloo Prasad Yadav and Digvijay Singh were virtually wiped out in state elections no one bothered to ask or explain why.

Myths have a bad habit of acquiring the cloak of reality. Because the Congress was told it had 'won' the 2004 elections on an anti-reform platform, it began to believe so. Almost every decision that it has made in the last three years, from caste-based quotas to pandering to the Muslim vote-bank is an attempt to reclaim a ground which no longer exists. So imagine their surprise when such measures yielded little electoral benefit. Since it is virtually impossible for Congress heavyweights to admit that they could actually have been wrong, the only course left for them is to travel even further down the anti-reform road.

It is useful to remember that an anti-reform plank is the one which comes most naturally to the Congress and to the old style socialists who still occupy the top positions in the party and the government. Socialism in India owes its existence to the infinite wisdom of Jawahar Lal Nehru and reached its anti-freedom depths under the elected dictatorship of Indira Gandhi. Hence, socialism is intricately tied to the presiding deities of the Congress party - the Nehru-Gandhi family. For the average Congressman, repudiating the logic of reforms is akin to reaffirming his faith in the Gandhi-Nehru family and its infinite wisdom. The initial round of economic reforms happened under P V Narasimha Rao during a period in which Sonia Gandhi was not taking an active interest in politics. Neither the Congress nor Sonia Gandhi forgave Mr Rao for that.

In this light, it is easy to understand why reforms are being blamed for the defeat of Mr Amarinder Singh's government in Punjab. Our astute political pundits have already concluded that Mr Singh lost because he pursued a 'negative agenda' of disinvestment, privatization and shiny malls. Interestingly

enough, the election results tell an entirely different story.

Punjab is divided into three different zones - Majha, Doaba and Malwa. Among the three, Malwa has the maximum number of assembly seats and is the real heartland of Akali and Jat-Sikh politics. Akalis consistently win in Malwa even when the election results elsewhere are unfavorable to them. Mr Singh assiduously wooed the rural population in Malwa, most noticeably by introducing genetically modified Bt cotton. The resultant bumper crops and increased prosperity has delivered Malwa to the Congress even as it has lost badly in its traditional strongholds like Doaba where the concentration of the Dalit population is one of the highest in the country. Those who are still not convinced should look at the results from the urban areas where the BJP has swept the elections, turning in its best ever performance in Punjab. This is not dissimilar from the 2004 elections where the BJP's core constituency - the urban middle class - had practically deserted it. In both cases, governments who were accused of working only for the urban middle class were rejected by the same class.

Quite simply, there is no single factor which decides elections. Blaming economic reforms is easy but it is merely a facade that hides bad governance, corruption and the lack of development. Those who believe that reforms are politically suicidal should explain why no party has openly come out against the reform process and also why those who are openly against the reforms - the Communists, for example - are increasingly getting marginalized even in their former strongholds like Malwa where at one time the Communist Party of India (CPI) was a potent political force. Unfortunately, the mantra of blaming reforms has become so ingrained in the psyche of our political leaders that they are unable to do a dispassionate analysis of election results and come to the correct conclusions.

If there is one lesson from Punjab, it is that extending the reform process to the agricultural sector makes political sense.

When will our politicians—specifically those of the Congress party—get it?

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Attacking poverty

V ANANTHA NAGESWARAN

The Indian economy grew at a measly pace of 3.5% up to the 1970s. It speeded up to 5% in the 1980s, further to 6% in the 1990s and is growing at an average rate of over 7% this decade. The steady improvement in average growth rate is impressive. One might even be tempted to question the need for doing anything more. There are three reasons why falling back on our laurels is not advisable. First, ours is a country of idealists. Tamil poet Subramanya Bharati wrote that even if one person did not have food on this planet, the planet was not worth having. Banishing poverty, therefore, is a moral imperative. Second, growth in these times is a security imperative. Just as companies that do not grow their value get taken over by rivals or predators, nations that do not enjoy economic growth find themselves facing increasingly internecine quarrels and become vulnerable to external coercion. Third, societies and economies do not stay in a steady state once they attain it. Failure to nurture growth would result in sliding back.

Let us deal with the first of the three imperatives for growth. Poverty is an assault on human dignity. It makes the poor do things that they would otherwise not do. It also brings out the baser elements of the characters of the rich. In other words, poverty reduces the average level of human refinement and retards their spiritual evolution. Like the pursuit of happiness, poverty alleviation is a paradox. Happiness is not attained by directly pursuing it but rather, through other pursuits that engender happiness. Direct attack on poverty has invariably centered on redistribution of wealth from the rich to the poor. Nothing is deemed quicker and more direct. Alas, that has not worked in the past. The rich flee such countries and take their money along with them. With that go the prospect of greater revenues for the government, investment in plants and jobs for the poor. In Zimbabwe, a programme to grab land from the rich white farmers and distribute them to the poor black peasants is resulting in hyperinflation and more misery for the poor. The current inflation rate is 2000%. Living standards are rapidly falling in that country.

A slightly more intellectually sophisticated version of redistribution is public ownership of productive assets. That is what India's first Prime Minister set about doing. Public ownership, in practical terms, is state ownership of produc-

tive assets. Regardless of whether a country is a democracy or not, state ownership of assets means that the control of those assets invariably lie with bureaucrats and ministers. Whether it is the parliamentary form of government or the presidential form, and even in democracies, actual control of state assets rests with a few. When that is combined with corruption, the potential to cause harm is infinite. That has been the experience with Indian state assets. In the name of socialism and equality, India's public assets have been treated as private assets and used for private enrichment. It is worse than capitalism. It is robbery of public property. Gains have accrued to a few while losses have been borne by the state—effectively, by the ordinary public. Had it been put to genuine public use, they might have generated more output and more employment. The opportunity thus lost is immeasurable. Hence, in eliminating poverty, ownership of assets in the hands of the real public has a key role to play.

The legal and judicial system has a key role to play in ensuring that private ownership of assets does not erode equal opportunities for all. It should also not result in unreasonably large private gains and public/social costs. Therefore, judicial reforms, faster disbursement of justice and accountability are essential ingredients of a policy mix that leads the poor to have a voice and a future. India's legal system is complex. Its judicial system is inefficient and slow and at lower levels, is

vulnerable to subversion of justice. Thus, it aids in poverty turning into cynicism. The poor, operating on the fringes of the economic system, choose to opt out of it totally. They are thus ready fodder for anti-national forces or

other violent movements that target the system. Hence, legal and judicial reforms are paramount.

Closely tied to legal and judicial reforms is the availability of information. Without comprehensive proof, no case is legally settled and a judgement in favour of the deserving is possible. That is where the visionary implementation of the Right to Information (RTI) legislation comes into play. Most states have enacted this law. This law enables citizens to demand and get information that affect their lives directly or indirectly. It is a powerful mechanism to hold the government accountable to the public. Many state governments have exempted vital parts of the government from the application of

Poverty elimination is a goal almost all Indians share. It can be achieved faster, and without making it a trade-off with economic growth, if we are ready to go beyond socialist rhetoric, engage in policy debate and emerge with a plan of action



this law. That is a pity. But it is part of the same mindset that treats the public as a nuisance and not as a constituency to be served in a democracy. Therefore, eradication of poverty requires strengthening the elements of the RTI legislation, clawing back exemptions, enhancing punishment for failing to meet obligations and making it steadily easier for the public to use RTI in all states and at the centre.

If RTI is an indirect tool of accountability, there is a more direct tool available. That is the relationship between an employer and employee. The government as an employer has certain right to expect productivity and output from its employees. It has usually been lax in enforcing it. Government jobs are coveted for their lack of accountability and scope for earning extra income. Hence, the process of improving government services and quality of governance has to start with enforcement of worker obligations and the right of the employer to get rid of a worker who does not pull his weight.

Accountability in government is a pre-requisite for ensuring that budget outlays turn into concrete outcomes for the public. Government has the scale and the resources to transform living conditions for the poor. It is present all over the country. It can reach and touch millions. If it has to use that positively, it has to ensure that the machinery works for the intended purpose. Government accountability, transparency and provision of information are inter-linked parts in the campaign to eliminate poverty.

Lastly, education is a vital link to raising people's knowledge and awareness. It is mostly in government hands and hence has hardly been provided to the users. Teachers are mostly absent from government schools and there is no provision of either safe drinking water or toilet facilities. If the gov-

ernment's priority is to educate all children at least up to the higher secondary level, then the straightforward thing is to throw the sector open to private providers. Government's role then would be to appoint independent and competent bodies to formulate and refine curriculum and provide cash support to the poor to attend schools of their choice. Education is the preserve of the government today; it should be the responsibility of the wise.

In sum, economic reforms are not about labour market flexibility or about encouraging foreign direct investment. They are about shedding hypocrisy and double standards. They are about withdrawal of the government from areas where it has no role and about enhancing its accountability and performance where it does. Poverty elimination is a goal almost all Indians share. It can be achieved faster, and without making it a trade-off with economic growth, if we are ready to go beyond socialist rhetoric, engage in policy debate and emerge with a plan of action. It requires sustained effort and focus, both of which imply a genuine commitment to the goal.

The fact that these are hardly the topics that come up in any discussion on the fate of the *aam admi* is a reminder to them that they are not central in the priorities of this government. Nor have they been in any previous governments. The poor Indian is still waiting for a government that she richly deserves.

A voice of national unity

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